

# Committee on Resources

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## Testimony of Nikolao Pula

Mr. Chairman and members of the House Committee on Resources, I am Nikolao Pula, Director of the Office of Insular Affairs in the Department of the Interior. I am pleased to appear before you today to discuss H.R. 2522, entitled "Compact Impact Reconciliation Act." While we understand the fiscal plight of the Government of Guam and want to assist, a more appropriate forum for addressing the issues raised in the bill may be the new Interagency Group on Insular Areas (IGIA), established by President Bush. The IGIA could consider in more depth the opinions and authorities of all agencies affected by the bill.

### ECONOMIC BACKGROUND

The economic and fiscal situation on Guam is dire. Entering office in January 2003, Governor Felix Camacho inherited a fiscal crisis that took root in the mid 1990s. The Asian economic crisis struck hard at Guam's tourism industry, which is responsible for 60 percent of Guam's economy. At the same time, the Federal government was closing or consolidating United States military bases, with direct effect on the Navy and Air Force bases on Guam. Government of Guam revenue shrunk from \$660 million in 1996 to \$340 million in 2003. Employment on the island has shrunk by 5,000 since 1999.

Spending reductions by the Government of Guam have not kept pace with revenue reductions. The result is that annual deficits are ballooning from \$74 million in 1996 to \$123.1 million in 2002 to over \$200 million by the end 2003.

Faced with the unenviable task of bringing government expenditures in line with severely reduced revenue, Governor Camacho is implementing an austerity program, including a cut in work hours for many government employees from 40 hours per week to 32 hours.

### COSTS OF MIGRATION

Against this is the economic backdrop, the apparent legislative intent of H.R. 2522 would be to forgive debt owed by Guam to various Federal agencies as an offset against costs borne by Guam as a result of migration from the freely associated states (FAS).

On congressional initiative in 1986, the provision entitled "Impact of the Compact on U.S. areas" was included in subsection (c) of section 104 of Public Law 99-239.

Paragraph (4) of the subsection, entitled the "Commitment of Congress to redress adverse consequences," states that "... the Congress will act sympathetically and expeditiously to redress those adverse consequences." Paragraph (6) authorized the appropriation of funds "to cover costs, if any, incurred by the State of Hawaii, the territories of Guam and American Samoa, and the Commonwealth of the Northern Mariana Islands resulting from any increased demands placed on educational and social services by immigrants from the Marshall Islands and the Federated States of Micronesia."

Based on this congressional authorization, the Congress has followed-up with various appropriations over the years as contributions toward the costs, borne by Hawaii and the territories, of the migration of citizens of the freely associated states. Representatives of Guam and other eligible jurisdictions often note that these appropriations by the Congress have not fully compensated for amounts expended on behalf of FAS migrants.

### INDIRECT VS. DIRECT ACTION

The goal of Guam officials in H.R. 2522 is to offset accrued cost associated with the impact of the Compact against debts owed by Guam. Action to achieve this goal can be indirect, such as asking the Secretary of the Interior to intervene under authority proposed in H.R. 2522, or direct, such as dealing with individual agencies that hold debt or requesting appropriations.

#### Indirect Action

Subsection (b) of section 2 of H.R. 2522 would authorize the Secretary of the Interior to "reduce, release, or waive all or part of any amounts owed by the Government of Guam (or its autonomous agencies or instrumentalities) to any department, agency, independent agency, office, or instrumentality of the United States." Among other debts that would be eligible for action by the Secretary, the bill specifically identifies

\$9 million owed to the Department of the Navy, \$3 million owed to the Department of Education, \$40 million owed to the Department of Homeland Security, and \$105 million owed to the Department of Agriculture.

We in the Department of the Interior fully understand the difficult financial choices that Guam faces. We sympathize with the leaders of Guam as they struggle to reconcile current needs with past policies and actions. The question is how to proceed in dealing with Guam's debt.

H.R. 2522 would give the Secretary of the Interior complete discretionary authority to abolish debt owed to another department or agency. These departments or agencies may have no part in the decision. Such unprecedented authority would put the Secretary in an untenable position. Relations between Interior and other Federal departments or agencies could be damaged to such an extent that other Interior missions, outside the realm of the territories, could be significantly impaired. Such action could have a severe fiscal effect on an individual agency or an unacceptable effect on the overall Federal budget.

As a practical matter, there would be no need for the Secretary to exercise such authority, given that the debt could be dealt with directly by the affected agency to the extent of its legal authority. The only situation where the Secretary's authority would have any meaning would be where the affected agency was unwilling to forgive the debt. It is precisely in that situation where no Secretary of the Interior would likely be willing to exercise the authority that would be granted in this bill over the objections of another department or agency. H.R. 2522 would therefore not have its intended effect, because of the very remote possibility that the authority granted therein would be exercised in any situation where such exercise would matter.

Although the Secretary of the Interior would be unlikely to exercise the authority granted in H.R. 2522 in a meaningful fashion, the mere fact that the authority exists could have a very harmful effect on Guam. Federal agencies might be extremely reluctant to extend essential credit to Guam, knowing that there was a possibility that the debt could be forgiven by the Secretary of the Interior without the creditor's consent. H.R. 2522 could thus result in Guam being denied access to credit in time of its most dire need.

The title of the bill and a number of the findings suggest a connection between debts forgiven and costs associated with the migration by citizens of the freely associated states to Guam. However, the operative subsection (b) of section 2 does not limit the forgiving of Guam debt to some determinable amount of impact on from migration. The authorization is open ended, with no reference to the impact of migration.

It is worth noting that Compact legislation (H. J. Res. 63) currently before the Congress would, for the first time, provide a mandatory annual appropriation of \$15 million to defray costs associated with the migration of individuals from the freely associated states to Hawaii, Guam, the Northern Mariana Islands and American Samoa. This new program effort on the part of the Administration would provide more than \$300 million over 20 years to address the effects of Compact migration. This is a significant departure from unreliable ad hoc appropriations of past years. The Administration's proposal would provide welcome relief for the jurisdictions most heavily affected by the migration of Micronesians -- Guam, Hawaii and the Northern Mariana Islands.

For these reasons, the Department of the Interior opposes enactment of H.R. 2522.

#### Direct Action

Guam might consider a more direct approach to these debt problems. Guam could approach the agencies listed in paragraph (7) of the findings. Given its severe financial crisis, Guam might qualify for relief under the authority of an individual agency. The Office of Insular Affairs would be glad to assist Guam in exploring the possibility for debt relief with the relevant agencies.

On May 8, President Bush signed Executive Order 13299 creating the Interagency Group on Insular Areas. Our first interagency organizational meeting is taking place today. We would be glad to place the issue of debt on the group's agenda. We look forward to working with the leaders of Guam in an effort to help Guam address its financial challenges.